

VZCZCXRO9455
PP RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHMO #2713 2541201
ZNY CCCCC ZZH
P 101201Z SEP 08
FM AMEMBASSY MOSCOW
TO RUEHC/SECSTATE WASHDC PRIORITY 9919
INFO RUCNCIS/CIS COLLECTIVE PRIORITY
RUEHZL/EUROPEAN POLITICAL COLLECTIVE PRIORITY
RUEHXD/MOSCOW POLITICAL COLLECTIVE PRIORITY
RHEHNSC/NSC WASHDC PRIORITY
RHMFISS/DEPT OF ENERGY WASHINGTON DC PRIORITY

C O N F I D E N T I A L MOSCOW 002713

SIPDIS

DEPT FOR EUR/RUS, FOR EEB/ESC/IEC GALLOGLY AND WRIGHT
EUR/CARC, SCA (GALLAGHER, SUMAR)
DOE FOR FREDRIKSEN, HEGBORG, EKIMOFF

E.O. 12958: DECL: 09/08/2018

TAGS: [EPET](#) [ENRG](#) [ECON](#) [PREL](#) [RS](#)

SUBJECT: AZERBAIJANI EMBASSY SAYS RUSSIAN OFFER TO BUY GAS
"MAKES SENSE"

Classified By: DCM Eric S. Rubin for Reasons 1.4 (b/d)

RUSSIAN OFFER "MAKES SENSE"

11. (C) In a September 4 meeting, Israfil Ahmadov, Economic Counselor at the Embassy of Azerbaijan, told us that the GOAZ is "considering" Gazprom's offer to buy Azeri gas at "European" prices. He said the GOAZ has not made a decision yet, but that it would have to respond to Russia's offer at some point. He said Central Asian producers are happy to sell to all buyers, but cautioned that Russia has been "very active" in the region and has gained favor recently as a result. Noting the slow pace of Western action on energy issues, Ahmadov suggested that Europe and the U.S. are "losing" in their bid to move future Azeri gas directly west.

12. (C) Ahmadov said Russia had approached Azerbaijan "in friendship" and has offered "full price" for its hydrocarbons. Given that selling gas to Russia would be commercially competitive, would diversify Azerbaijan's gas export routes, and would pay political dividends with Russia, Russia's offer "makes sense" for Azerbaijan, Ahmadov stressed. With regard to Nabucco, Ahmadov said Azerbaijan is supportive, but noted that the project does not depend solely on Azerbaijan.

CAN'T IGNORE POLITICAL ANGLE

13. (C) Expounding on the need for better political relations with Moscow, Ahmadov pointed to Armenia's strong political and cultural ties to Russia. He said the Nagorno-Karabakh issue and Armenia's close relations with Russia complicate Azerbaijan's approach to all aspects of its dealings with Russia -- "not being friends with Russia is definitely not advantageous for us." Recounting a 1990 Russian attack in Baku that killed many Azeris, and likening it to the recent events in Georgia, Ahmadov said the U.S. needs to understand and value the complicated nature of the Azerbaijan-Russia relationship.

COMMENT

14. (C) The Azeri response to Russian overtures strikes us as short-sighted. At the end of the day, "diversifying" to a customer whose actions depend on the potentially arbitrary decisions of a few specific government leaders is not a sound

business decision regardless of the price. A more constructive approach for Azerbaijan might be to leverage Russia's offer as a means of forcing a more malleable approach by Turkey on transit terms. That said, this is likely not a decision that will be made solely on commercial grounds. End comment.

BEYRLE